

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REPORT, 2011

Docket No. ACR2011

UNITED STATES POSTAL SERVICE NOTICE OF FILING  
OF REVISIONS TO FY 2011 ANNUAL COMPLIANCE REPORT – ERRATA  
(January 12, 2012)

The United States Postal Service is today filing revised versions of certain pages and folders of the Fiscal Year 2011 Annual Compliance Report (ACR), filed on December 29, 2011. Specifically, the Postal Service is filing revised versions of pages 20-21 and 26-28 and folders USPS-FY11-4 and USPS-FY11-NP27. The revised pages are attached to this Notice; the revised folders are being filed in the form of replacement discs.

The revised materials make the following corrections:

- (1) There were minor discrepancies between the information appearing in Table 2 on page 20 and the information contained in USPS-FY11-1. Table 2 has been corrected.
- (2) On page 21, the ratio of the average revenue per piece from Standard Mail sent by nonprofit mailers to the average revenue per piece from Standard Mail sent by commercial customers has been corrected from 66.5 percent to 60.5 percent, and the text accompanying the ratio has been revised accordingly. In addition, for ease of reference, the Postal

Service is filing with this Notice the workbook used to calculate the ratio, at “NonprofitRatio.xls.”

- (3) On page 26, the cost coverage noted for Standard Mail Carrier Route Letters, Flats, and Parcels has been corrected from 135.3 percent to 134.8 percent.
- (4) On page 27, the cost coverage noted for Standard Mail Letters has been corrected from 184 percent to 183.6 percent.
- (5) On page 28, the cost coverage noted for Standard Mail Flats has been corrected from 79.4 percent to 79.3 percent.
- (6) In USPS-FY11-4, the workbook “FY 2011 Standard Mail.xls” contains errors arising from the double-counting of Intelligent Mail Barcode pieces. In the revised version, the corrected cells are highlighted.
- (7) In USPS-FY11-NP27, the workbooks “FY2011ParcelsCostModel11.xls” and “FY2011FlatsCostModel11.xls” contain certain incorrect parameters. In the revised version, see sheet "Trans. Costs FY 2011", cells Q20:Q23, for the corrections. All succeeding analyses affected by these corrections have been updated. In addition, analysis workbooks for the CP2009-44 and CP2010-5 negotiated service agreements (NSAs) have been updated to be consistent with those of other NSAs; the changes affect sheet PartnerProfile, rows 95-108, but do not affect any numerical results.

For ease of reference, the Postal Service is also filing a full, revised version of the FY 2011 ACR. The footer of each revised page indicates that it is revised, while all of the other pages remain unchanged.

Respectfully submitted,

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value of service, mailers pay lower prices than for First-Class Mail. In general, business mailers use Standard Mail to send items of lower intrinsic importance and value as well as items that do not require expeditious delivery, taking advantage of the class's lower prices. And, while Standard Mail has a complex pricing structure, its principal users are sophisticated businesses that are able to handle that complexity. Moreover, the complexity of the pricing structure allows the Postal Service to flexibly tailor pricing to meet the complex needs of its customers—thereby encouraging mail use—and to encourage efficient use of the mail.

**Table 2: Standard Mail Volume, Revenue, and Cost by Product**

| <b>Product</b>                      | <b>Volume<br/>(million)</b> | <b>Revenue<br/>(\$million)</b> | <b>Attribu-<br/>table<br/>Costs</b> | <b>Contri-<br/>bution</b> | <b>Revenue/<br/>Piece</b> | <b>Cost/<br/>Piece</b> | <b>Unit<br/>Contri-<br/>bution</b> | <b>Cost<br/>Coverage</b> |
|-------------------------------------|-----------------------------|--------------------------------|-------------------------------------|---------------------------|---------------------------|------------------------|------------------------------------|--------------------------|
| HD/Sat Letters                      | 5,654                       | \$ 768                         | \$ 349                              | \$ 419                    | \$ 0.136                  | \$ 0.062               | \$ 0.074                           | 220.0%                   |
| HD/Sat Flats & Parcels              | 11,425                      | \$ 1,881                       | \$ 883                              | \$ 998                    | \$ 0.165                  | \$ 0.077               | \$ 0.087                           | 213.0%                   |
| Carrier Route Letters               | 9,336                       | \$ 2,222                       | \$ 1,648                            | \$ 574                    | \$ 0.238                  | \$ 0.177               | \$ 0.062                           | 134.8%                   |
| Letters                             | 50,584                      | \$ 9,708                       | \$ 5,289                            | \$ 4,419                  | \$ 0.192                  | \$ 0.105               | \$ 0.087                           | 183.6%                   |
| Flats                               | 6,783                       | \$ 2,491                       | \$ 3,143                            | \$ (652)                  | \$ 0.367                  | \$ 0.463               | \$ (0.096)                         | 79.3%                    |
| Parcels & NFMs                      | 734                         | \$ 651                         | \$ 767                              | \$ (117)                  | \$ 0.887                  | \$ 1.046               | \$ (0.159)                         | 84.8%                    |
| Standard Mail NSAs                  | 176                         | \$ 38                          | \$ 23                               | \$ 15                     | \$ 0.217                  | \$ 0.132               | \$ 0.085                           | 163.8%                   |
| Standard Mail Fees                  |                             | \$ 68                          |                                     |                           |                           |                        |                                    |                          |
| Total Standard Mail                 | 84,691                      | \$ 17,826                      | \$ 12,078                           | \$ 5,748                  | \$ 0.210                  | \$ 0.143               | \$ 0.068                           | 147.6%                   |
| Former Regular & Nonprofit Regular* | 58,101                      | \$ 12,849                      |                                     |                           | \$ 0.221                  |                        |                                    |                          |
| Former ECR & Nonprofit ECR*         | 26,414                      | \$ 4,871                       |                                     |                           | \$ 0.184                  |                        |                                    |                          |

\* These are included to allow comparison with former subclass-level data.

As shown in Table 2, in FY 2011, Standard Mail covered its attributable costs and made a significant contribution toward covering the Postal Service's institutional costs. Standard Mail prices changed by 1.739 percent in FY 2011. As noted above, Standard Mail is used by both commercial mailers and by qualified nonprofit mailers who receive preferred pricing. By law, when the Postal Service adjusts Standard Mail prices, the average revenue per piece for Standard Mail sent by nonprofit mailers must be 60 percent of the average revenue per piece for Standard Mail sent by commercial customers. For all of FY 2011, the ratio was 60.5 percent.

In FY 2011, the Standard Mail class had six products: Letters; Flats; NFMs and Parcels; Carrier Route Letters, Flats and Parcels; High Density and Saturation Letters; and High Density and Saturation Flats and Parcels. Each product includes both commercial and nonprofit mail. Table 2 shows that each of these products, except Flats and NFMs/Parcels, covered its attributable costs and made a contribution toward institutional costs. In each of the last four fiscal years, Flats and NFMs/Parcels did not cover costs. As noted below, NFMs/Parcels are being restructured in FY 2012. Issues relating to Flats pricing are subject to a petition for review filed by the Postal Service with the Court of Appeals for the District of Columbia Circuit.

to Docket No. RM2009-3, the Commission had determined that there was a worksharing relationship between Carrier Route mail and High Density mail and, therefore, the pricing restrictions of section 3622(e) apply to the price differences between these categories. A more detailed discussion of worksharing in Standard Mail is contained in Section II.G of this Report.

In FY 2011, the prices for Standard Mail Carrier Route pieces changed by 1.376 percent. Table 2 shows that, based upon FY 2011 costs, the Carrier Route Letters, Flats, and Parcels product covered its attributable costs with a cost coverage of 134.8 percent. This cost coverage shows that the Carrier Route product made a reasonable contribution toward the Postal Service's institutional costs.

The Standard Mail Carrier Route Letters, Flats and Parcels product helps to meet the need for a business-oriented, lower value, lower priced alternative to First-Class Mail. The Standard Mail Carrier Route product is reasonably and fairly priced for the value its customers receive, bears a fair share of the institutional cost burden of the Postal Service, and is available to business customers without undue discrimination. Therefore, this product promotes the policy goals of title 39.

#### **iv. Letters**

The Standard Mail Letters product is used primarily for demographically targeted advertising, including fundraising by nonprofit organizations. It provides a way for businesses to communicate with customers, or potential customers, that does not require the most expeditious, and therefore, more expensive, mail processing and delivery. Consistent with these features, its prices are below the prices for First-Class Mail letters. Prices for Standard Mail Letters were increased by 1.810 percent in FY

2011. Based upon FY 2011 costs, the Letters product covered its attributable costs with a coverage of 183.6 percent, thereby making a reasonable contribution toward the Postal Service's institutional costs.

Standard Mail Letters are eligible for price discounts for presorting, pre-barcoding and dropshipping. Mailers who do this extra work pay lower prices consistent with the costs their worksharing avoids for the Postal Service. Based on FY 2011 cost data, there are three discounts that exceed avoided costs out of a total of nine worksharing discounts for this product. Worksharing in Standard Mail is discussed further in Section II.G of this Report.

Overall, the Standard Mail Letters product meets the need for a business-oriented, lower value, lower priced alternative to First-Class Mail letters. The product is reasonably and fairly priced for the value its customers receive, bears a fair share of the institutional cost burden of the Postal Service, and is available to business customers without undue discrimination. Therefore, Standard Mail letters promote the policy goals of title 39.

#### **v. Flats**

The Standard Mail Flats product consists primarily of advertising flyers and catalogs that are demographically targeted. It is primarily used by businesses selling merchandise and for fundraising by nonprofit organizations. Like Standard Mail Letters, it allows businesses to send existing or potential customers promotional material that does not require the most expeditious, and therefore, more expensive, mail processing and delivery. Consistent with these features, Standard Mail Flats prices are below the

prices for First-Class Mail flats. In FY 2011, the prices for Standard Mail Flats increased by 0.835 percent.

Table 2 shows that the Flats product had a cost coverage of 79.3 percent in FY 2011. The Postal Service believes that pricing and efficiency measures need to be taken to move this product toward covering its costs and making an appropriate contribution toward institutional costs.

In the FY 2010 ACD, the Commission found that the prices in effect in FY 2010 for Standard Mail Flats did not comply with 39 U.S.C 101(d). The Commission stated its view that the loss in contribution from Standard Mail Flats over the last three years reflected an unfair and inequitable apportionment of the costs of postal operations to all Standard Mail users, and it directed the Postal Service to increase the product's cost coverage through a combination of above-average price adjustments and cost reductions until such time that the product's revenues exceed its attributable costs.<sup>6</sup>

On April 17, 2011, the Postal Service sought judicial review of this directive as (1) contrary to the express terms of the PAEA, (2) beyond the Commission's authority in the context of its review of an Annual Compliance Report, and (3) arbitrary and capricious in that the Commission failed to address the argument that such a course of action may actually result in less contribution and, therefore, have a negative impact on the Postal Service's financial stability.<sup>7</sup> This appeal is still pending.

In Docket No. R2011-2, the Postal Service increased Standard Mail Flats prices by 0.835 percent. This moderate increase was given in an effort to gradually move

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<sup>6</sup> FY 2010 Annual Compliance Determination Report (ACD), Docket No. ACR2010 (Mar. 29, 2011), at 106.

<sup>7</sup> *U.S. Postal Service v. Postal Regulatory Commission*, No. 11-1117 (D.C. Cir.)